

**STATE PUBLIC SCHOOL FUND
(LOCAL EDUCATION AGENCIES - LEAS)**

State Authorization: North Carolina General Statutes Chapter 115C, Articles 1 – 31
Governor’s Executive Approval Memo dated March 24, 2020:
New COVID-19 Allotment and Public School Budget Flexibility

**N. C. Department of Public Instruction
Division of School Business**

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N.C. DPI Confirmation Reports:

Confirmation of Funds Expended and/or Disbursed from the State Public School Fund and Federal Programs 2022-23 will be available at the [NC DPI School Business Division Annual Reports Application](#). The system provides an electronic view of Year-to-Date (YTD) financial reports in response to requests for confirmation from independent auditors.

The auditor should **not** consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor **can** consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

I. PROGRAM OBJECTIVES

The objective of the State Public School Fund is to provide monies to the Public School Units (PSUs) and Public Charter Schools for the basic education, enrichment and strengthening of educational opportunities for the children of the State of North Carolina.

II. PROGRAM PROCEDURES

The State Public School Fund is administered through the State Board of Education (SBE) and the Department of Public Instruction (DPI). The State Board of Education establishes policies and procedures to implement legislative requirements to provide the PSUs with a uniform system of accounting for and reporting on the appropriations and the current operating expenditures. Allotments in the form of dollars, positions, and/or months of employment are provided to the PSUs by the Department of Public Instruction based on average daily membership (ADM) of PSU student population. Certain categorical programs are funded based on applications submitted by the LEAs. Allotment reports are sent from the School Allotment Section of the Division of School Business notifying the PSUs of the amount of

State funds that they have available. DPI publishes monthly Cash Certification Calendars establishing deadlines for requesting funds to assist the PSUs with their cash management efforts and needs. The PSUs have access to request State funds five (5) days per week, except for banking holidays, so that funds may be deposited no more than two business days prior to the date of disbursement. The PSUs must enter requests for funds for a particular Funds Requirement Date (date of intended disbursement) according to the deadlines established on the Cash Certification Calendar. Once approval is received from the State Controller's Office, DPI processes the requests so that the funds are deposited into the respective PSU account after 2:00 p.m. the day before the Funds Requirement Date.

III. COMPLIANCE REQUIREMENTS

1. Activities Allowed or Unallowed

A. Compliance Requirement – The LEAs must comply with the requirements of the North Carolina General Statutes and particularly Chapter 115C (Public School Laws of North Carolina), Articles 1 through 31. In addition, SBE has the authority to issue rules and regulations with which they must comply.

Individuals in positions allotted by the SBE or dollar allotments can be paid with State Public School funds. The Department of Public Instruction determines and fixes the salary for each grade and type of certificate, which it authorizes. Certified employees paid with State Public School funds are to be paid in accordance with the state salary schedule. (G.S. 115C-272, 115C-284 and 285, 115C-296 and 302.1, 115C-316, and 115C-416)

[The North Carolina Public Schools Allotment Policy Manual DPI](#) and the [North Carolina Public Schools Uniform Chart of Accounts](#), revised annually, should be used to monitor the appropriateness of expenditures and the proper use of allotments within the intent and limitations for which they are appropriated. School units are required to expend funds for the purposes they were allotted and to control their funds by the requirements and allotment basis for each category.

Audit Objective – To determine that the LEA is complying with the requirements of the applicable North Carolina General Statutes, maintaining their records according to generally accepted accounting procedures, expending state allotted funds for the purpose for which they were allotted, and controlling their funds by the requirements and allotment basis for each category of funds.

Suggested Audit Procedures:

Salaries for Certified Employees:

Obtain the payroll register for selected period(s) and select a sample of disbursements to certified individuals. Perform the following tests:

1. Examine proper authorizations for payroll withholdings and voluntary deductions and verify appropriateness of amounts withheld.
2. Obtain the LEA's Salary Exception List provided to them from the Division of School Business through the Internet based LicSal system for the fiscal year being audited. This list reflects certified individuals who have been overpaid or underpaid based on their assigned certified salary as compared to their payline gross.
 - a. Determine that action is taken by the LEA to resolve underpaid or overpaid individuals. Overpaid individuals must be refunded to DPI at gross salary paid plus matching benefits. Underpaid individuals must have payment made to adjust their salary as a prior year adjustment. The need for a refund or salary adjustment

should be included in the auditor's recommendation. The status of any refund or salary adjustment should be addressed in the management's response.

Salaries for Non-Certified Employees:

1. Select a sample of disbursements to determine that overtime pay is properly computed and paid from the appropriate overtime code(s) for employee's subject to Fair Labor Standards Act (FLSA). See the North Carolina Public School Benefits and Employment Policy Manual for the appropriate method of computing and recording overtime compensation located on the Internet at: [Employee Policy | NC DPI](#)

Other Salary Related Procedures: (Certified and Non-Certified Employees)

1. Select a sample of substitute teachers and determine whether their salaries and wages were properly authorize and approved.
2. Select a sample of substitute teachers to determine whether wages were properly coded. (1) Substitute wages should be coded to Program Report Code (PRC) 003 in the case of teachers paid from position controlled allotments (i.e., 01, 07, etc.) (2) The coding of substitute wages should correspond with the coding of teacher salaries when paid from dollar controlled allotments (i.e., PRC 032).
3. Select a sample of terminated employees and recompute the termination payments. Determine if longevity payments and/or annual leave payments were due and appropriately paid.
4. Examine the adequacy of documentation for selected longevity payments and verify that the payments are based on the correct percentage (depending on years of service), paid at the proper time, based on the proper salary base, and paid from the proper funding source.
5. Evaluate the accuracy and the adequacy of the unit's system for accruing and recording annual leave.
6. Determine whether the LEA has a process in place to monitor the number of positions or months of employment used exceeded the number of positions or months of employment allotted by DPI. Determine that action is taken by the LEA to continue to resolve any outstanding issues identified by NC DPI regarding the number of positions or months of employment used. The need for a refund should be included in the auditor's recommendation. The status of any refund should be addressed in the management's response.
7. Examine any payroll checks being held by the school unit and determine the disposition of unclaimed wages.
8. Select a sample of void/stop payment payroll checks to determine whether void/rewrite situations were properly processed and interfaced with the LEA's automated accounting system.
9. Determine that individuals are serving in the capacity reflected by their expenditure coding and with the allotment being utilized. Examples: nurses should carry a "5840" purpose code; PRC 012 should only reflect expenses related to Driver's Education.
10. Determine that employees who are receiving payment for Worker's Compensation or short-term disability are not receiving regular salary payments in addition to these benefits.

11. Review to determine that the LEA is requesting reimbursements for short-term disability (beyond the first six months) from the Retirement System at the end of the short-term disability benefit period or at the conclusion of the disability, whichever is earlier. These reimbursement requests must be filed on a timely basis.

B. Compliance Requirement – Each LEA shall operate under an annual balanced budget resolution adopted and administered in accordance with G.S. 115C, Article 31. A budget resolution is balanced when the sum of estimated net revenues and appropriated funds balances is equal to appropriations. All monies (except funds of the individual schools) received and expended by an LEA should be included in its budget resolution. (G.S. 115C-425)

Audit Objective – To determine the LEA incurred no obligation unless the budget resolution included an appropriation authorizing the obligation.

Suggested Audit Procedures:

1. Ensure there are procedures in place to manage the budget resolution and amendment process. For a sample:
 - a. Review the budget resolution and any subsequent amendments to determine whether they were properly approved and recorded.
 - b. Determine whether expenditures exceeded the approved budget resolution as adjusted for amendments.
 - c. Examine the approved budget resolution as adjusted for amendments to determine if disbursement amendments were authorized in the approval budget prior to the disbursement occurring.

Note: Report on a lack of controls, if material issues arise in the budget resolution process and transactions tested have material impact.

2. Determine whether expenditures exceeded the dollar amounts allotted by the State Public School Fund (for allotments controlled by dollars) and determine the status of any refunds due to DPI. The need for a refund should be included in the auditor's recommendation. The status of any refund should be addressed in the management's response.

C. Compliance Requirement – A bill, invoice, or other claim may not be paid unless it has been approved by the finance officer or by the local board of education. If an obligation is evidenced by a contract or agreement requiring payment of money or by a purchase order for supplies and materials, the contract, agreement, or purchase order shall include on its face a certificate signed by the finance officer stating that the instrument has been pre-audited to assure that an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year. (G.S. 159.25(a)(2)) (G.S. 115C-436(a)(2)) (115C-441(a)-(b))

The [North Carolina Public Schools Allotment Policy Manual DPI](#) and the [North Carolina Public Schools Uniform Chart of Accounts](#), revised annually, should be used to monitor the appropriateness of expenditures and the proper use of allotments within the intent and limitations for which they are appropriated. .

Audit Objective – To determine that obligations were approved by the Finance Officer or Board of Education and received a pre-audit certificate signed by the Finance Officer.

Suggested Audit Procedures:

Select a sample of general expenditure disbursements made from State Public School funds and perform the following tests:

- Inspect the contract, agreement or purchase order for evidence of the pre-audit certificate signed by the finance officer.
- Ensure payment was approved by the Finance Officer or by the local board of education.
- Select a sample of void/stop payment general expense checks to determine whether void/rewrite situations were properly processed and interfaced with the LEA's automated accounting system.
 - If travel is selected, determine that disbursements for travel were made in accordance with state travel requirements.
 - Trace posting of the disbursements to the general ledger, noting the expenditure account codes used, to verify if the disbursements represent allowable activities for their respective PRC.

3. Cash Management

Compliance Requirement – Not Applicable.

It is the policy of the State of North Carolina that all agencies, institutions, departments, bureaus, boards, commissions, and officers of the State, whether or not subject to the State Budget Act, Chapter 143C of the General Statutes, shall devise techniques and procedures for the receipt, deposit, and disbursement of moneys coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. This policy shall apply to the General Court of Justice as defined in Article IV of the North Carolina Constitution, the public school units as defined in G.S. 147-86.12, and the community colleges with respect to the receipt, deposit, and disbursement of moneys required by law to be deposited with the State Treasurer and with respect to moneys made available to them for expenditure by warrants drawn on the State Treasurer. This policy shall include the acceptance of electronic payments in accordance with G.S. 147-86.22 to the maximum extent possible consistent with sound business practices.

4. Conflict of Interest

Compliance Requirement – Not Applicable.

5. Eligibility

Compliance Requirement – Not Applicable.

6. Equipment & Real Property Management

Compliance Requirement – All assets such as moveable equipment are to be maintained on the LEA's fixed asset system and recorded on the LEA's financial records according to the LEA's capitalization policy, available from the finance officer or assets manager.

Audit Objective – To determine asset acquisitions such as moveable equipment were maintained on the LEA's fixed asset system and recorded on the LEA's financial records according to the LEA's capitalization policy.

Suggested Audit Procedure – Review LEA's fixed asset reports and procedures and their capitalization policy. Determine that asset acquisitions such as moveable equipment

were recorded and maintained on the LEA's fixed asset system and recorded on the LEA's financial statements.

8. Period of Availability of State Funds

A. Compliance Requirement – An LEA may incur no obligation unless the budget resolution includes an appropriation authorizing the obligation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year. (115C-441)

Audit Objective – To determine all sums obligated for the current fiscal year were expended in the current fiscal year.

Suggested Audit Procedure - Inspect the June vouchers to determine that the school unit ensured that all items **were received** prior to payment.

9. Procurement and Suspension and Debarment

A. Compliance Requirement – Obligations must be incurred in accordance with state purchasing requirements.

Audit Objective – To determine obligations were incurred in accordance with state purchasing requirements.

Suggested Audit Procedure: Determine purchases met the state purchasing requirements (G.S. 143-48 through 143-64.5).

B. Compliance Requirement – LEAs are prohibited from entering into a contract with a party that has been suspended or debarred by the State of North Carolina.

Audit Objective – To determine the LEA has not entered into a contract with a party that has been suspended or debarred by the State of North Carolina.

Suggested Audit Procedure – Verify the LEA has not entered into a contract with a party that has been suspended or debarred by the State of North Carolina. A list of debarred parties can be found at <https://ncadmin.nc.gov/government-agencies/procurement/contracts/debarred-vendors>.

12. Reporting

Compliance Requirement – The LEA shall comply with the reporting requirements established by the SBE in the Uniform Education Reporting System (UERS). (G.S. 115C-12(18))

Audit Objective – To determine that the LEA has complied with the reporting requirements established by the SBE in the Uniform Education Reporting System. (G.S. 115C-12(18)).

Suggested Audit Procedure

- Determine that checks are being issued through UERS approved financial software to the ultimate payee, ensuring that the financial software is being used to **generate** payments, not just to record payments already issued. Manual check entries should be few and documented as to why they were necessary.

- Ensure that when a 3rd party service is being used for payroll that the payroll information is not downloaded/entered into the UERS approved financial software at a summary level. All payroll information from any 3rd party is to be entered into approved software at the detailed level to include payee, check number, type(s) of pay, withholding detail, etc.
- Ensure that when a 3rd party service is being used for accounts payable payments the expenditure information is not uploaded/entered into the UERS approved financial system at the summary level. All expenditure information is to be entered into the approved software at the detailed level to include the vendor information, amount, check number, etc.
- Ensure that a separate accounting system is not being used independent of the UERS approved financial system to perform payroll and accounts payable functions and that information being transferred into the approved software.

14. Special Tests and Provisions

A. Compliance Requirement – The “Allotment Balance Reconciliation Report” (JHA351EG) is transmitted electronically monthly to the LEAs by the Division of School Business at DPI. The LEAs should adjust and reconcile their account records to the “Allotment Balance Reconciliation Report.”

Audit Objective – To determine the LEA is reconciling its account records to the monthly “Allotment Balance Reconciliation Report” and making necessary adjustments in a timely manner.

Suggested Audit Procedures:

- Review evidence that the LEA is reconciling its account records to the monthly “Allotment Balance Reconciliation Report” (JHA351EG) and making necessary adjustments in a timely manner. While we do not mandate a schedule for reconciliation, we do recommend that reconciliation be performed monthly.
- Determine that the LEA is refunding allotment overdrafts as obligations are incurred to prevent penalties from being incurred. Ensure that the LEA is paying any penalties for overdrafts monthly as incurred.

B. Compliance Requirement – The “Cash Certification Summary Report” (JHA856EG) is transmitted electronically monthly to the LEAs by the Division of School Business at DPI. The LEAs should reconcile their State cash balance records and bank reconciliations to the “Cash Certification Summary Report”.

Audit Objective – To determine the LEA is reconciling its State cash records to the “Cash Certification Summary Report” and bank reconciliations and making necessary adjustments in a timely manner.

Suggested Audit Procedures:

Review evidence that the LEA is reconciling its cash records to the “Cash Certification Summary Report” (JHA856EG) and bank reconciliations in a timely manner. While we do not mandate a schedule for reconciliation, we do recommend that reconciliation be performed monthly.

C. Compliance Requirement – Certain state funds expended as part of the State Public School Fund are intended for specific purposes and individuals. It is the intention of the General Assembly and the State Board of Education that all funds be expended for the purposes intended. The LEA must comply with the applicable rules and regulations governing use of state funds.

Audit Objective – To determine the LEA is complying with the requirements of the applicable rules, regulations, and purpose of the funds expended, and to ensure expenditures are for the appropriate personnel and/or utilization.

Suggested Audit Procedures:

- NBPTS (National Board of Professional Teaching Standards) – Obtain a list of individuals who are receiving a 12% NBPTS salary differential. For those who are not guidance counselors or media coordinators obtain class schedules for these personnel, signed by the teacher. Verify that the individuals paid this salary differential are doing classroom instruction at least 70% of their time. Ensure that Lead Teacher (Object 135) did not receive the 12% NBPTS salary differential.

<https://www.dpi.nc.gov/documents/fbs/finance/legislation/salarypersonnel/guidelines-for-national-board-for-professional-teaching-standards-nbpts-pay-differential>

- Longevity Payments- Obtain a list of individuals who received longevity pay. Obtain payroll history information for these individuals. Verify that the individuals receiving longevity pay from PRC 009 are paid with state funds (fund 1).
- Charter School ADM Funding – Determine if the LEA provides ADM funds to a charter school. If so, verify that the dollars per ADM provided to the charter school is in accordance with Statute GS115C-238.29H (d).
- Summer Reading Camps – Ensure that all expenditures for summer reading camps were spent on the current year reading camp and not purchasing supplies and materials for a future year reading camp.
- Teacher Legislated Bonuses –Session Law 2022-74 authorized bonuses for teachers based on test results to be paid out of PRC 048.
 - Third-Grade Teacher Performance Bonus (Section 9.7)
 - Advanced Placement and IB Bonuses (Section 8.8)
 - Industry certifications and credentials Bonuses (Section 8.9)
 - Third, Fourth and Fifth-Grade Reading Bonus (Section 7A.2)
 - Fourth to Eighth Grade Math Bonus (Section 7A.2)

Obtain a list of teachers paid these bonuses to ensure eligibility pursuant to Session Law and the [North Carolina Public Schools Allotment Policy Manual](#).

- Teacher Legislated Bonuses – Session Law 2022-74 authorized several bonuses for teachers based on test results to be paid out of PRC 048.
 - Advanced Placement and IB Bonuses (Section 7A4)

- Industry certifications and credentials Bonuses (Section 8.9)
- Fourth and Fifth-Grade Reading Teacher Bonus (Section 8.8D)
- Fourth and Fifth-Grade Math Teacher Bonus (Section 8.8E)

Obtain a list of teachers paid these bonuses to ensure eligibility pursuant to Session Law and the [North Carolina Public Schools Allotment Policy Manual DPI](#)

- Principal Legislated Bonuses – Session Law 2022-74 authorized several bonuses for principals based on performance results to be paid out of PRC 048.
 - Principal Bonuses (Section 7A.5)

Obtain a list of principals paid these bonuses to ensure eligibility pursuant to Session Law and the [North Carolina Public Schools Allotment Policy Manual DPI](#)

D. Compliance Requirement – Gfeller-Waller Concussion Awareness Act (Required by G.S. 115C-12(23)) The local Board of Education is required to create, disseminate and post information related to concussions and head injuries.

Audit Objective – To determine that the local Board of Education has complied with all aspects of North Carolina General Statute 115C-12(23).

Suggested Audit Procedures:

- a copy of the information sheet related to concussion and head injuries
- Gain evidence that the concussion and head injuries information sheet was provided to and signed, prior to participation, by all coaches, school nurses, athletic directors, first responders, volunteers, students and their parents or guardians, who participate in middle or high school interscholastic athletic activities.
- evidence that all coaches, school nurses, athletic directors, first responders, volunteers, students who participate in middle or high school interscholastic activities signed the information sheet and return it to the coach before they can participate in interscholastic athletic activities, including tryouts, practices or competition.
- evidence that the information sheet was provided to and signed by the parents or guardians of those students participating in middle and high school interscholastic athletics.
- evidence that the information sheet that was provided to and signed by the parents or guardians of those students participating in middle and high school interscholastic athletics is returned to the coach before their children can participate in any interscholastic athletic activities.
- Ensure that the information sheet includes:
 - (a) The definitions and symptoms of concussions and other head injuries;
 - (b) A description of the physiology and the potential short-term and long-term effects of concussions and other head injuries;
 - (c) The medical return-to-play protocol for post-concussion participation in interscholastic athletic activities; and
 - (d) Any other information deemed necessary by the local board of education,

- Ensure that each school has a venue-specific emergency action plan to deal with serious injuries and acute medical conditions in which the condition of the patient may deteriorate rapidly.

This plan must be:

- (a) In writing;
- (b) Reviewed by an athletic trainer licensed in North Carolina;
- (c) Approved by the principal of the school;
- (d) Distributed to all appropriate personnel;
- (e) Posted conspicuously for community and parental awareness at all athletic-sponsored venues; and
- (f) Reviewed and rehearsed annually by all licensed athletic trainers, first responders, coaches, school nurses, athletic directors, and volunteers for interscholastic athletic activities.

The plan shall include:

- (a) A delineation of roles;
- (b) Methods of communication;
- (c) Available emergency equipment; and
- (d) Access to and plan for emergency transport.